

DAMAGE COMPENSATION AS THE WAY OF PROTECTION OF AUTHORS' PROPERTY RIGHTS: THE ECONOMIC AND LEGAL ASPECT

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Abstract. *The objective of the article* is to determine the economic and legal aspects of compensation for damages caused by the violation of the authors' property rights in conformity with the national evaluation standards in the field of intellectual property, the legislation of Ukraine and its application. *The subject of the study* is the domestic experience of property reimbursement to authors in case of violation of their property rights to works. *Methodology.* The study is based on the analysis of Ukrainian legislation on ways to reimburse authors for property rights for works, including compensation for damages, and determination of their advantages and disadvantages. The peculiarity of three economic approaches – cost, comparative and profit, as well as their use in a certain situation for determination of the amount of damage inflicted to the author, is defined on the basis of economic analysis. *The results* of the study point out that the reimbursement of damages is the main way of property compensation for violation of property rights of the author. And in comparison with other methods, the reimbursement of real losses and lost profits is designed to a greater extent to protect the property interests of the author. It is concluded that over the weak development of the intellectual property market in Ukraine, commercial secret under contract terms in the field of intellectual property, a clear advantage is given to the profit approach. The approach, by means of various methods, will enable the most reasonable determination of the amount of damage. *Practical implications.* The development of reimbursement for the caused losses as a means to protect the property interests of authors in Ukraine demonstrates that the intellectual property market should be properly developed in line with European standards. This will allow authors to effectively use other methods of property compensation for violating property interests. In turn, this will allow choosing new methods of economic calculation of property compensation for a committed offense in the sphere of copyright. *Originality.* The comparative analysis of the ways of property compensation for the violation of authors' property rights is the basis for domestic legislation development in the field of intellectual property in accordance with European standards.

Key words: copyright, damages reimbursement, approaches and methods of calculating, amount of losses.

JEL Classification: P26

Exposition of the problem and its connection with important scientific and practical tasks. The development of civilization implies not only the recognition of certain subjects' civil rights but also the provision of their proper legal protection and, therefore, the problem of the protection of civil rights becomes extremely relevant. Taking into account the importance of this problem, legislation of Ukraine (in the constitutional norm) provides everybody with a right of any not forbidden by a law facility to protect the rights and freedoms from violations and wrongful

encroachments (Part 4 of Article 55 of the Constitution of Ukraine) (Prytyka, 2004). Today when it comes to property rights for copyright objects, this problem is of particular relevance. The significance of the protection of rights is established in the Constitution of Ukraine: every citizen has a right to the results of the intellectual, creative activity; nobody can use or diffuse them without his consent, after the exceptions set by a law (Article 54 of the Constitution of Ukraine) (The Constitution of Ukraine: Law of Ukraine № 254k-96/VR from June 28, 1996).

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Ukraine ratified the Association Agreement between Ukraine and the European Union and its member states in September 2014, from now on, all the authorities with powers in the field of European integration must ensure the effective implementation of the international legal obligations (Hnydiuk, Pavliuk, 2016). One of the realms of European integration of Ukraine is the creation of an effective mechanism for the protection of property rights of authors and other right holders in accordance with the standards of the European Union (hereinafter – the EU) from offenses. That is why the analysis of domestic legislation that regulates the protection of property rights of authors by means of reimbursement of damages will be relevant. However, since their extent is determined by economic approaches and methods, it will be important to analyse the economic aspect of the application of damages as means of protecting the authors' property rights.

Analysis of the latest research and publications. The issues of protecting the authors' property rights by way of reimbursement of losses incurred from a legal and economic point of view were the subject of a scientific study by such scholars as O. Butnik-Siverskyj, K. Kovtunencko, O.I. Kosarenko, I.Ju. Polishhuk, Ju.D. Prytyka, L. Shackova, and many others.

Statement of the article's task. The objective of the article is to determine the economic and legal aspects of compensation for damages caused by the violation of the authors' property rights in conformity with the national evaluation standards in the field of intellectual property, the legislation of Ukraine and its application.

Presentation of the main research material with a new substantiation of the scientific results obtained. Upon creating a work, the author has two distinct goals: satisfying the intellectual needs and satisfying the material interests. This precisely causes the origin of non-property rights and proprietary rights regarding the created work.

Legal competences of property character, which form the property right of the author allow him to carry out economic exploitation, usage of his work or give permission for usage to third parties, obtaining a monetary reward for it.

According to Part 3 of Article 15 of the Law of Ukraine "On Copyright and Related Rights" the exclusive right of an author (or another copyright holder) to allow or prohibit the use of a work by other persons shall entitle him to allow or prohibit: 1) reproduction of works; 2) public performance and broadcast of works; 3) public demonstration and public display of works; 4) any repeated promulgation of works, if carried out by an organization other than the one that carried out the first promulgation; 5) translations of works; 6) versions, adaptations, arrangements, and other similar alterations to works; 7) inclusion of works as components into collections, databases, anthologies, encyclopaedias, etc.; 8) distribution of originals of works and their

specimens by first sale or alienation by another method or by transferring for property lease or rental, and by other transfer prior to the first sale of specimens of a work; 9) general notification of the public of his works in such a manner that its representatives can access the works at any place and at any time at their own discretion; 10) transfer for property lease and (or) commercial rental after the first sale, alienation by another method of the original or specimens of audiovisual works, computer software, databases, musical works as sheet music, as well as of works fixed on a phonogram or videogram or in a computer-readable form; 11) import of specimens of a work. Thus, the list of property rights of the author is not exhaustive but they all point to the possibility of commercialization of works, the purpose of which is to generate profits. This opportunity exclusively serves as the main reason for the unauthorized use of works.

General ways of protecting property rights of individuals and legal entities, including in the field of copyright, are defined in Article 16 of the Civil Code of Ukraine, the second part gives the method of compensation of damages and other methods of compensation for property damage (paragraph 8) (Civil Code of Ukraine: Law of Ukraine № 435-IV of January 16, 2003). However, the legal status of intellectual property objects is determined not only by general but by special legislation of Ukraine. Regarding copyright objects, there is a number of laws of Ukraine, in particular, "On Copyright and Related Rights" (On Copyright and Related Rights: Law of Ukraine № 3792-XII from December 23, 1993), "On Distribution of Copies of Audiovisual Works, Phonograms, Videograms, Computer Programs, Databases" (On Distribution of Copies of Audiovisual Works, Phonograms, Videograms, Computer Programs, Databases: Law of Ukraine № 1587-III of March 23, 2000), "On Publishing" (On the Publishing Business: Law of Ukraine №318 / 97-VR of June 5, 1997), "On Cinematography" (On Cinematography: Law of Ukraine № 9/98-VR of January 13, 1998) etc.

According to Article 52 of the Law of Ukraine "On Copyright and Related Rights" methods of protection author's property rights may be used on the basis of violation by any person the copyright, non-observance of the conditions for using works stipulated by contract, the use of works in circumvention of technical means of protection or by the forging of rights-management information and (or) documents, or for the creation of a threat of unlawful use of objects of copyright, and for other infringements of proprietary rights of the persons holding copyright.

In this case, persons holding copyright have the right: a) to require the recognition and renewal of their rights; b) to lodge claims with a court of law requiring renewal of the infringed rights and (or) the termination of actions infringing copyright or posing a threat of their violation;

c) to lodge claims requiring reimbursement of moral (non-proprietary) losses; d) to lodge claims requiring reimbursement of losses (material damage), including lost profit, or collection of the income derived by the infringer as a result of his violation of copyright and (or) related rights, or payment of compensation; e) to require the termination of preparations for an infringement of copyright, including the suspension of customs procedures, if there is a suspicion that counterfeit specimens of works, phonograms, videograms or means of circumvention might be allowed into or from the customs territory of Ukraine, in compliance with the procedure stipulated in the Customs Code of Ukraine; f) to participate in the inspection of the production premises, storage facilities, technological processes and business operations relating to the production of specimens of works, phonograms and videograms with respect to which there are grounds to suspect violation or threat of violation of copyright, in compliance with the procedure established by the Cabinet of Ministers of Ukraine; g) to require, including by court procedure, the publication in the mass media of information about infringements of copyright rights and of court judgments with respect to infringements; h) to require the provision, by the persons infringing the claimant's copyright of information about third parties involved in the manufacture and distribution of counterfeit specimens of works and objects of related rights or means of circumvention, and the relevant distribution channels; i) to require other measures envisioned by legislation, concerning the protection of copyright; j) to protect the copyright in the prescribed by Article 52¹ way of the Law of Ukraine "On Copyright and Related Rights" (in the commission of offenses through the Internet – added by author). So, reimbursement in violation of the property rights of the author, including loss of profits, is one of the ways of protection in the result of property damage.

However, the court of law may use such means of protection as the payment of compensation, to be prescribed by the court, in an amount from 10 to 50,000 minimum salaries (Part 2, Article 52 of the Law of Ukraine "On Copyright Right and Related Rights"). Hence, the payment of compensation is used here in lieu of damage reimbursement or income collection.

Each means of property compensation, which the author or another copyright holder will choose, has its certain peculiarity.

Reimbursement is the easiest way of property compensation if the person wants promptly stop the illegal use of the work. According to paragraph 42 of the Resolution of the Plenum of the Supreme Court of Ukraine "On Application of Legislation in the Case of Protection of Copyright and Related Rights," compensation is payable in the event of proving the violation of the property rights of the subject of copyright and (or) related rights, and not the amount

of the damages caused (On Application of the Norms of Legislation in Cases on the Protection of Copyright and Related Rights: Resolution of the Plenum of the Supreme Court of Ukraine № 5 from June 4, 2010). In this case, the minimum monetary compensation in the amount of 10 minimum wages is paid to the plaintiff and the activity violating his rights terminates. However, if a person wants to receive substantial monetary compensation (up to 50 thousand minimum wages, that is 186 million 150 thousand Ukrainian hryvnias (as of 2018)), the plaintiff will have to prove much more evidence of the circumstances of the case. In particular, the kind of violation of property rights was allowed; objective criteria that can approximately specify amount of damage (not precise – added by author) caused by the wrongful use of individual object of copyright; the duration and extent of violations (one-time or multiple use of disputed objects); the amount of income received as a result of the offense; number of persons whose right is violated; the intentions of the defendant; the restoration possibility of the previous state and the efforts necessary for this purpose, etc. (Paragraph 42 of the Resolution of the Plenum of the Supreme Court of Ukraine "On Application of Legislation in the Case of Protection of Copyright and Related Rights"). Consequently, a clear algorithm of calculation with the help of such a method of property compensation as reimbursement is not established. Litigation proves the difficulty of achievement of the monetary compensation with help of such a method of protection. As in one of the economic cases, the plaintiff demanded the maximum amount of compensation for unauthorized use collections of the assignments. The court of the first instance has satisfied the claim partially (in the amount of 555 thousand hryvnias), on the basis of the circulation of collections, where controversial assignments were published (300 thousand copies). However, the court of appeal ceded the case for a reconsideration, stating that "the amount of compensation should not exactly correspond to the amount of damage that has been incurred but must correlate to it in a certain way," and the court of first instance did not investigate by means of evidence "the possible remuneration for similar use on the terms of the license agreement, which is either established by this right holder under previous agreements, or is an established practice in this field; profit from the sale of copies of the collection of assignments, which was predicted, but was not realized due to the spread of counterfeit products" (Resolution of the High Economic Court of Ukraine in the economic affairs № 16 / 430-03 from July 18, 2006).

Reimbursement from the copyright infringer of income derived from the violation of property rights of the authors also serves a fairly simple way of property compensation. On the other hand, the amount of such a penalty will not always satisfy the plaintiff since the income already received is unlikely to correspond to

the damage actually caused by violation of the author's rights or may be caused in the future (Kosarenko, 2011).

Therefore, while causing damage to property rights of authors, plaintiffs often turn to such a method of protection as reimbursement.

Loss compensation is the main way of reimbursing property damage inflicted on the author. But, according to Part 2 of Article 22 of the Civil Code, the damage is the loss suffered by a person in connection with the destruction or damage to the thing, as well as the expenses that the person should do to restore his violated right (actual losses) and the income that a person could actually receive under normal circumstances, when his/her right was not violated (lost profit).

In accordance with Part 2 of Article 52 of the Law of Ukraine "On Copyright and Related Rights" in determining the amount of damages to be reimbursed to a person whose rights have been violated, the court must proceed from the merits of the violation, property damage inflicted on the person having the copyright, as well as from the possible the income that a person could receive. The amount of damages inflicted on a person whose rights have been violated may additionally include court costs incurred by this person, as well as expenses related to the payment of a lawyer's assistance.

As practitioners point out, the actual damages caused by copyright infringement is rarely used in practice since this type of damage is difficult to prove. It is much easier to prove in the court the lost profits, that is, revenues that the author could obtain from the offender for the legitimate use of his work. However, in a well-established business based on commercialized products, it is possible to claim reimbursement of both real losses and lost profits (Novytskyi). And this is where the economic aspect of property compensation occurs: the right choice of approaches and methods for calculating the amount of the damage.

As soon as occurs the possibility of practical use of protected results of creative activity in the economic sphere, that is, their commercialization, immediately arises the problem of estimating the value of objects of intellectual property, including works. The complexity of works' evaluation is due to the fact that it is fundamentally impossible to develop its unique universal methodology. Not only every work is original (by definition) but also the conditions for the practical use of the results of creative activity at different enterprises, too, usually, differ significantly from each other. Almost in each individual case while refinement of the purpose of assessments an individual methodology for calculations for each particular object is developed. That would the most fully allow taking into account all pricing factors that affect its market value. This methodology may take into account past costs for the creation and acquisition of an object, market conditions and, moreover, may be based on the ability

of the intellectual property to bring additional revenue to the enterprise (Husakovska, 2014).

To assess the value of works and, consequently, the losses caused by their illegal use, three basic approaches were used: cost, comparative, and profit (Udovychenko, Trusevych, 2007).

The cost approach is most often used to measure intangible assets that do not participate in generating hereafter earnings and do not bring profits at this time. For example, when intangible assets are rated to be socially significant or participate in defence programs of state or regional security.

This approach to the calculation of value suits to the buyer because he/she can documentary track the costs of creating an intellectual property object and, therefore, make sure that this value is justified. But it is not profitable for the seller since he/she will receive an amount equal only to the incurred costs of creating an object of intellectual property, that is, without profit (Kovtunencko, Shatskova, 2012).

The cost approach involves the use of various techniques: direct playback method, the replacement cost method, initial cost method. However, since a cost approach involves evaluation of works based on costing associated with their creation or acquisition, it accurately reflects the cost of the work prior to its commercialization (for example, the budget of a blockbuster movie before it's rolled out). Obviously, this approach cannot be used to compensate for the damage caused to the author's property rights, since it does not apply when the business with the object of copyright begins. That is why it is proposed to use an alternative approach – comparative.

Comparative approach is a comparison of the object being evaluated with a similar type, sphere (scope) of application, sale time, suitability for commercial use, the existence of exclusive rights, similarity of markets and other functional or economic characteristics (paragraph 22 of the National Standard No. 4 "Evaluation of Intellectual Property Proprietary Rights") (On Approval of the National Standard № 4 "Appraisal of Intellectual Property Rights": Resolution of the Cabinet of Ministers of Ukraine №. 1185 October 3, 2007). This approach requires the use of a sales comparison method. In order to apply a comparative approach, one must have information on treaties that sold property rights to similar products. The market price of a product, more precisely, generated by it the property rights, formed by economic indicators, will give an idea of the market value of the estimated work. It is possible to take into consideration the prices of already concluded contracts or the price of works that are only offered for sale.

A comparative approach requires careful application, as far as its incorrect application during transferring the parameters of one object to another may give false results. Appraisers, who are invited to carry out in court cases assess of the value of damages caused by violation

of property rights to works, use comparative method extremely rarely. The fact is that in Ukraine, due to the weak development of the intellectual property market, commercial secret under intellectual property contract terms, comparative approach can be used effectively, only for the assessment of the violation of property rights to computer programs (due to their rapid aging) and a number of other objects of copyright, the study of which is freely possible in the market. If a person does not have the information about the price of selling such a product or has some doubts about it, this fact should be reflected to what extent this has influenced the authenticity of the conclusion about the market value of the object of valuation (paragraph 16 of National Standard No. 1 "General Principles of Valuation of Property and Property Rights") (On Approval of the National Steel Works № 1 "General principles of valuation of property and property rights": Resolution of the Cabinet of Ministers of Ukraine № 1440 September 10, 2003). In addition, the person that will assess the damage caused is required to initially perform interim calculations, which then will be adjusted, taking into account the notable features of the sales object, which may affect the reliability of the results. That is why the advantage in determining the amount of damages in violation of property rights to the work is given to the profit approach.

The profit approach is the main approach when evaluating intellectual property objects. It assumes that nobody will invest its capital in the acquisition of an immaterial object, if the same income can be obtained in another way, in the same predicted period of time. Benefits from the use of evaluated intellectual property are determined on the basis of direct comparison of the magnitude, risk and time of obtaining money flow from the use of intellectual property. Forecast of hereafter money flows is based primarily on the actual funds received, that is, based on the money flows of the year preceding the valuation date. The main drawback of the profit approach is the complexity of obtaining the necessary initial information for calculations. In conditions of an unstable economy, the accurate prediction of hereafter income, costs, and risks is a complex task that requires high qualifications of appraisers (Husakovska, 2014).

The versatility of the profit approach makes it attractive because it allows seeing the value of an

intangible asset that should have been shown by the appropriate type of licensing agreement for the legal sale of property rights to works. The National Standard No. 4 "Evaluation of Intellectual Property Proprietary Rights" also recommends using this approach indicating that this approach should be chosen if "it is possible to determine the amount of income received or may be received by a legal or natural person who owns such rights" (paragraph 9). Moreover, an attention is drawn to such basic methods of income approach as a method of indirect capitalization (discounting of money flow) and the method of direct capitalization of income. The application of indirect capitalization methods (discounting of money flow) and direct capitalization methods of income to assess the proprietary rights of intellectual property implies the determination of the size of the part of the income received as result with the presence of such rights in a legal or natural person (Paragraph 11 of the National Standard No. 4 "Evaluation of Intellectual Property Proprietary Rights"). Hence, the methods of income approach will most effectively be able to determine the size of losses from the presence of counterfeit products.

Conclusions of the study and prospects for further exploration in this direction. The reimbursement of damages is the main way of property compensation for violation of property rights of the author. And in comparison with other methods, the reimbursement of real losses and lost profits is designed to a greater extent to protect the property interests of the author. Taking into account the intangible nature of works, determination of the damage amount is not associated with traditional approaches. This transforms the issue of the value of compensation into a complex problem, both theoretical and practical. There is a variety of approaches and methods for assessing damages connected to the violation of property rights to works, where a clear advantage is given to the income approach. The approach, by means of various methods, will enable the most reasonable determination of the amount of the damage caused. However, the approaches and methods above described by the author are not unique in the determination of the amount of damages for violation of property rights to works. Their description and comparison with the basic approaches and methods may be the subject of independent scientific research.

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